

Administration's new plan for the Air Force proposes nearly 4,000 fewer missile purchases for 1985, mainly Sparrows, Mavericks, and Stingers. These reductions would be offset by proposed increases in purchases of Navy tactical missiles, such as the Missile Launched Laser Guided Bomb and TOW.

TABLE IV-12. CHANGES IN ADMINISTRATION PLANS FOR MISSILE PROCUREMENT BETWEEN FEBRUARY 1982 AND JANUARY 1983 (By fiscal year, in units procured)

Missile Type	1984	1985
Strategic		
Navy		
Trident I	-20	-30
Tomahawk	-188	5
Air Force		
MX (Peacekeeper)	-26	-19
Air launched cruise missile (ALCM)	-440	-480
Subtotal, Strategic	-674	-524
Tactical		
Army	-2,791	-620
Navy/Marine Corps	-1,969	3,527
Air Force	-3,045	-3,828
Subtotal, Tactical	-7,805	-921
Total	-8,479	-1,445

SOURCE: Compiled by CBO from data supplied by the Department of Defense.

Ships. The current shipbuilding plan for 1984 proposes four fewer ships for new construction than were proposed in last year's plan. This would save about \$1 billion in budget authority in 1984. For 1984-1987, the latest shipbuilding plan cuts 21 from the number of ships to be built. Table IV-13 shows this reduction by category of ship.

Last year's shipbuilding plan was presented as the level of construction needed to meet the goal of a modern navy of 600-plus ships with 15 carrier

TABLE IV-13. ADMINISTRATION CHANGES FOR NEW CONSTRUCTION IN NAVY SHIPBUILDING PLAN, 1984-1987, BETWEEN FEBRUARY 1982 AND JANUARY 1983 (In units procured)

Ship Type	1984	1984-1987
Cruisers	--	-3
Destroyers	--	-3
Frigates	-2	-10
Attack Submarines	--	1
Mine Warfare	--	1
Support	<u>-2</u>	<u>-7</u>
Total	<u>-4</u>	<u>-21</u>

SOURCE: Compiled by CBO from data supplied by the Department of Defense.

battle groups by 1990. This goal may still be achievable with the revised shipbuilding plan. The pace of modernization will be much slower, however, particularly for major warships.

Tanks. Proposed purchases of M-1 tanks have been reduced by 360 tanks in both 1984 and 1985. This reduction would save about \$900 million in 1984. Because a heavy division has approximately 360 tanks, the impact of this reduction could be to delay modernization of two heavy divisions.

Other Purchases. The Administration's current plan proposes reduced appropriations of about \$1 billion from last year for planned equipment purchases including ammunition and tracked vehicles. Additional reductions in planned purchases, amounting to at least \$2 billion, cannot be identified from available budget documents.

Pay Reductions. The Administration's previous national defense plan proposed pay increases for 1984 of about 5 percent for civilians and 7.6 percent for military personnel. The Administration now proposes no pay raises for 1984, which, in combination with the cap on 1983 pay raises, would save about \$6 billion. In addition, the Administration's current budget reduces pay for military retirees to reflect enacted legislation that reduced 1983 cost-of-living adjustments (COLAs) for retirees under age 62 and the Administration's proposal to eliminate the potential COLA for 1984.

Construction. Future military construction programs have been reduced by about \$1.2 billion from the \$7.0 billion projected by the Adminis-

tration in February 1982. This decrease represents a scaling down of plans for modernization of troop facilities.

### Program Increases

Cost Growth in Weapons Purchases. A significant change in the 1984 budget is an increase in the price of major weapons systems. CBO's preliminary analysis of 60 major systems in the Administration's budget indicates that they have increased by a net \$2.6 billion in 1984. These increases reflect higher estimates of costs per unit in real terms, after adjustments for inflation.

Defense purchases have experienced significant real cost growth in recent years. This has occurred for a variety of reasons, including program changes (such as new specifications or revised production schedules) and the underestimation of real resources required, such as manufacturing hours, material, and labor costs. After recognizing the cost-growth problem in major weapons systems, the Administration instituted a number of acquisition initiatives to restrain it. Sufficient data is not available to evaluate fully the success of these initiatives. The data presented below, however, shows that real cost growth has continued for many major weapons systems during the second year of this Administration.

Table IV-14 provides cost-growth data on 60 major weapons systems by comparing 1984 unit costs as initially projected by the Administration in February 1982 against estimates contained in the current 1984 budget. The table shows a net cost growth of \$2.6 billion since last year, compared with an increase of \$2.7 billion for 48 systems in CBO's analysis of the 1983 budget.

One reason for this growth in unit costs is that the Administration's procurement strategy for 1984 involves decreases in planned order levels for many systems. The planned purchases for 22 of the 60 reviewed major systems are lower than planned a year ago. As shown in Table IV-15, all of these systems experienced unit price increases. Table IV-15 also shows four other systems, which would be purchased in increasing quantities and would experience the expected real declines in their procurement unit costs. Historically, reduced levels of annual purchases have been associated with increased costs because production levels become less economical and because the shift of production from earlier to later years raised costs as a result of inflation. The changes made to the 1984 budget since February 1982 appear inconsistent with the Administration's announced goal of cost saving through more economical production rates. Rather than cancel an entire weapons system, reductions in acquisition quantities have historically been used to reduce procurement cost in the current budget

TABLE IV-14. MAJOR WEAPONS SYSTEMS COST CHANGES IN THE 1984 PROGRAM  
BETWEEN FEBRUARY 1982 AND JANUARY 1983  
(In millions of dollars and percents)

Weapon System	Procurement Unit Cost February 1982	Procurement Unit Cost January 1983	Percent a/ Change	Cost Impact on 1984 Budget a/
Laser Maverick Missile, Navy	0.14	0.27	95	22
MX Missile	57.38	102.59	79	1,221
SH-60B Helicopter	16.45	26.14	59	203
Tomahawk Missile	1.95	2.88	47	115
C-5 Aircraft	205.00	286.53	40	326
Sparrow Missile, Navy	0.16	0.22	40	44
TH-57 Helicopter	1.10	1.50	37	8
Harm Missile, Navy	0.62	0.84	35	50
IR Maverick Missile, Air Force	0.10	0.13	32	84
Patriot Missile	1.45	1.89	30	229
GLCM Missile	3.86	5.03	30	140
EA-6B Aircraft	51.50	66.60	29	91
Sparrow Missile, Air Force	0.14	0.18	26	38
Trident Submarine	1,533.80	1,848.00	20	314
Phoenix Missile	1.00	1.19	20	57
Stinger Missile, Army	0.08	0.09	16	20
Light Armored Vehicle, Marine Corps	0.60	0.69	16	11
Cost Effect of 18 Other Systems Showing Unit Price Increases				674
Cost Effect of 25 Other Systems Showing Unit Price Decreases				-1,098
Total Impact of 60 Systems				2,554

SOURCE: Compiled by CBO from data supplied by the Department of Defense.

a. Percent change and cost impact were calculated prior to rounding procurement unit costs.

TABLE IV-15. CHANGE IN QUANTITY AND PROCUREMENT UNIT COST OF SELECTED WEAPONS IN THE ADMINISTRATION'S 1984 ACQUISITION PLANS BETWEEN FEBRUARY 1982 AND JANUARY 1983 (In percents)

Weapon System	Quantity Change	Procurement Unit Cost Change
Decreasing Quantity and Increasing Cost		
Patriot missile	-21	30
Stinger missile, Army	-54	16
Hellfire missile	-14	9
M-1 tank	-33	10
A-6E aircraft	-25	6
F-14 aircraft	-20	4
F/A-18	-13	1
SH-60B helicopter	-67	59
Trident I missile	-28	14
Tomahawk missile	-60	47
Sparrow missile	-43	40
Sidewinder missile	-22	14
Phoenix missile	-19	20
HARM missile, Navy	-8	35
Laser Maverick missile, Navy	-53	95
Light Armored Vehicle, Marine Corps	-20	16
Captor torpedo system	-50	15
F-15 aircraft	-20	6
MX missile	-49	79
Sparrow missile, Air Force	-52	26
Maverick missile, Air Force	-43	32
C-5 aircraft	-60	40
Increasing Quantity and Decreasing Cost		
AH-64 helicopter	17	-12
AV-8B aircraft	7	-6
Fighting vehicle	8	-4
T-34C aircraft	36	-6

SOURCE: Compiled by CBO from data supplied by the Department of Defense.

year. The data in Table IV-15 suggest that this technique may have been used for some of these weapons.

The most recent DoD study indicates that real cost growth between 1975 and 1980 in major weapons systems alone has averaged 3.5 percent per year. <sup>2/</sup> If the Administration's attempts to curb this cost growth fail and this trend continues, the Administration's estimates for major weapons systems procurement from 1984 to 1988 would have to be increased by a total of about \$69 billion, or more quantities would have to be cut in future years which would result in further increases in procurement unit costs.

Research and Development. The current R&D program for 1984 shows an increase of \$2.1 billion over the program presented last year. Air Force strategic programs constitute \$1.5 billion of this increase. Included is about \$730 million more for an MX missile closely spaced basing (CSB) system, compared with the less expensive interim basing plan of February 1982. The balance of the increase is devoted to tactical programs of the Navy and the Air Force.

Spare Parts Purchases. Since last year's budget submission, the Administration plans to increase the peacetime inventory of spare parts. This requires a funding increase for defense stock funds of \$2.0 billion compared to Administration estimates of a year ago. The Air Force stock funds would receive \$1.6 billion of this amount, the largest share of the proposed increase, to support the weapons scheduled for delivery in 1984.

Military Personnel. Military personnel appropriations for 1984 would be \$400 million larger in the latest budget request than projected a year earlier. Of this amount, \$200 million would fund estimated payments of unemployment compensation to persons leaving military service. The remaining \$200 million would fund higher estimates of costs for moving expenses and other items.

Nuclear Materials. All categories of the atomic energy defense account--namely weapons research; development, test, and production; weapons materials production and waste management; naval reactor development; and other research programs--were increased over the previously proposed 1984 levels. The total increase is \$400 million.

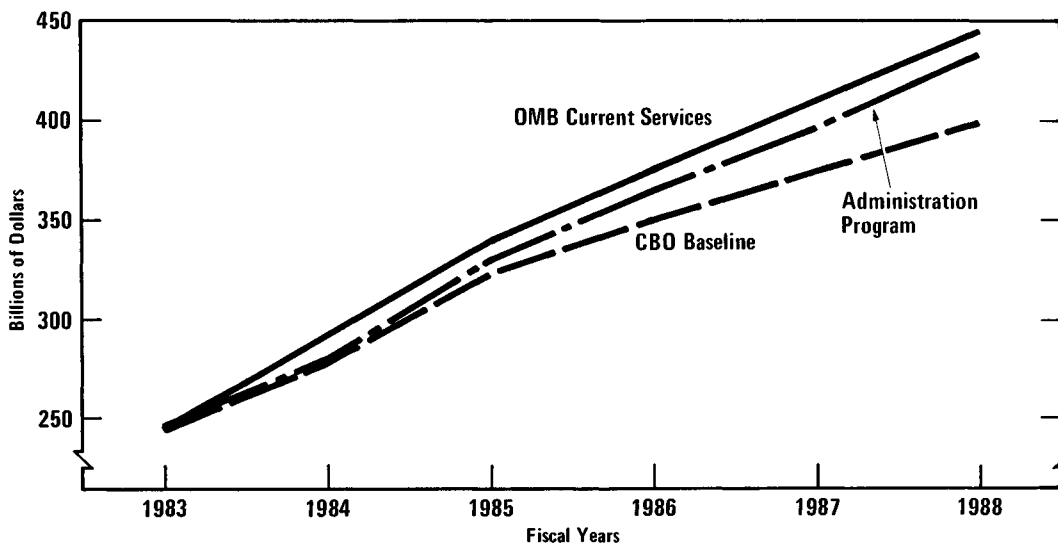
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2. Milton A. Margolis, "Improving Cost Estimating in the Department of Defense," *Concepts*, vol. 4, no. 2 (Spring 1981), p. 8 (data are derived from DoD Selected Acquisition Reports); and Stephen Gross, "Program Cost Growth in the Department of Defense as of December 31, 1980," (paper prepared by the Air Force Data Services Center, undated).

## CHANGES FROM CURRENT POLICIES

Figure IV-5 shows that the Administration's 1984 defense budget can be interpreted as a reduction or an increase, depending on what measure is used as current policy. The latest budget is a reduction from the Administration's 1982 projection for 1984, but an increase over the 1984 targets in the First Concurrent Resolution on the Budget for Fiscal Year 1983.<sup>3/</sup> This section focuses on changes when measured against previous Administration and Congressional plans.

Figure IV-5.

### Comparison of Administration Defense Program and Current Policies (Budget Authority)



SOURCES: *Budget of the United States Government, Fiscal Year 1984*; and Congressional Budget Office.

3. While the CBO baseline projections assume the defense spending levels provided in the 1983 Congressional budget resolution, the OMB current services projections assume the levels of defense spending requested by the Administration in February 1982.

The Administration has assessed its new budget plan against its current services estimates that include the funding request presented last year for the Department of Defense-Military. As shown in Table IV-16, the Administration's national defense budget would reduce 1984 budget authority by \$11 billion and outlays by \$8 billion; over five years the reductions would total \$55 billion in budget authority and \$47 billion in outlays.

TABLE IV-16. THE ADMINISTRATION'S NATIONAL DEFENSE BUDGET FOR 1984-1988 COMPARED WITH ITS CURRENT SERVICES ESTIMATES (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Total
Administration's Current Services Estimates						
Budget Authority	291.8	339.4	375.4	408.7	445.1	1,860.4
Outlays	253.7	293.4	332.2	364.7	396.6	1,640.6
Administration's Budget						
Budget Authority	280.5	330.0	364.8	397.0	432.7	1,805.0
Outlays	245.3	285.3	323.0	354.3	385.6	1,593.5
Savings						
Budget Authority	11.3	9.4	10.6	11.7	12.4	55.4
Outlays	8.4	8.1	9.2	10.4	11.0	47.1

SOURCE: Compiled by CBO from data supplied by the Office of Management and Budget.

In general, the Administration intends to achieve these savings without jeopardizing previous initiatives for new force modernization and improved readiness. Net savings are to be accomplished through such means as a pay freeze in 1984, lower inflation estimates (including lower fuel prices), and rescheduling of selected programs. For example, in 1984 the \$11 billion in savings can be traced to three sources. First, the Administration's plan of a year ago anticipated that military pay would be increased by 8 percent in 1983 and 7.6 percent in 1984; the plan expected civilian pay raises of about 5 percent in each year. However, the actual 1983 pay raise was 4 percent for all federal employees and the Administration now proposes no pay raise



for 1984, saving a combined \$6 billion from last year's budget. Second, the reduction of the 1983 COLAs for retirees under 62 in the Omnibus Reconciliation Act of 1982, coupled with the Administration's proposal to eliminate cost-of-living adjustments for military retirees in 1984, would save about \$1 billion from last year's budget. Finally, the Administration's economic forecast calls for less inflation than it expected a year ago, thereby saving about \$4 billion in budget authority.

From the perspective of the Congress, however, the Administration's current services estimates may not be the appropriate base from which to assess the Administration's 1984 budget request. This different view could arise because the current services estimates include a restoration of the budgetary reductions implicit in the national defense targets set by the Congress in the first budget resolution for fiscal year 1983. In that budget resolution, the Congress reduced the Administration's defense budget authority request by \$13 billion and \$16 billion for 1984 and 1985, respectively--the final two years covered by the 1983 resolution.

CBO's baseline projections for national defense are consistent with the defense targets in the first budget resolution for 1983, which covered only the years 1983-1985. CBO estimated spending beyond 1985 by lowering Administration spending targets by about 2 percentage points. That reduction was the average real growth cut imposed by the budget resolution relative to Administration spending plans for the 1983-1985 period. When the Administration's budget for national defense, as reestimated by CBO is compared with CBO's baseline projections, the Administration's program represents an increase in budget authority of \$2 billion in 1984 and a total of \$81 billion for the 1984-1988 period, as shown in Table IV-17. (CBO's reestimates are discussed below.)

Thus, when compared to CBO's baseline for national defense, the Administration's budget request appears to have restored \$2 billion of the \$13 billion targeted for reduction by the Congress for 1984. The remaining \$11 billion of funding reductions result from repricing the pay raise, lower COLAs, and lower inflation assumptions. In other words, despite the small difference in 1984, the Administration's plan includes almost none of the program reductions anticipated in the Congressional resolution and would exceed the resolution even more if it were adjusted for the resolution's pay and inflation assumptions. The program changes the Administration did make to its previous plan for 1984 take the form of significant reallocation of funds among programs, as discussed in the preceding section.

Finally, Table IV-18 shows the difference between the CBO and the Administration estimates of the outlays from the Administration's 1984 program. These estimates assume Congressional approval of the \$1.6 billion

TABLE IV-17. THE ADMINISTRATION'S NATIONAL DEFENSE BUDGET AS REESTIMATED BY CBO FOR 1984-1988, COMPARED WITH CBO'S BASELINE PROJECTIONS (By fiscal year, in billions of dollars)

	1984	1985	1986	1987	1988	Total
CBO Baseline						
Budget Authority	278.3	322.4	350.0	373.0	398.0	1,721.7
Outlays	242.1	277.7	310.0	333.0	358.0	1,520.8
Administration's Budget as Reestimated by CBO						
Budget Authority	280.2	329.6	364.3	396.4	432.1	1,802.6
Outlays	244.7	282.3	321.6	357.5	389.8	1,595.9
Increases						
Budget Authority	1.9	7.2	14.3	23.4	34.1	80.9
Outlays	2.6	4.6	11.6	24.5	31.8	75.1

SOURCE: Congressional Budget Office, Baseline Budget Projections for Fiscal Years 1984-1988 (February 1983), pp. 42-46; and data supplied by the Department of Defense.

supplemental for 1983 and the proposed rescission of \$650 million of previously appropriated budget authority, both of which are to be submitted later.

On the basis of its analysis of historical spending patterns, CBO estimates that outlays would be somewhat lower through 1986, but about \$2 billion higher over the six-year period than the Administration estimates. Budget authority would be the same, except for small differences in military retirement pay caused, in part, by differences in economic assumptions. The estimating differences are relatively small, no more than 1.1 percent in any one year, and represent a narrowing of differences from a year ago. The CBO and Administration estimates have tended to converge over time because the Administration appears to have raised its estimates and CBO has lowered its own.

TABLE IV-18. CBO REESTIMATES OF THE ADMINISTRATION'S DEFENSE BUDGET IN OUTLAYS (By fiscal year, in billions of dollars)

Category	1983	1984	1985	1986	1987	1988	Total 1983-1988
Administration's Budget	214.8	245.3	285.3	323.0	354.3	385.6	1,808.3
CBO Reestimates							
Economic	a/	a/	a/	-0.1	-0.2	-0.3	-0.6
Technical							
Procurement	-0.1	-1.7	-3.4	-1.8	1.9	3.5	-1.7
Operations	0.2	1.7	0.4	0.4	0.7	0.7	4.1
All Other,							
Net	-0.7	-0.6	0.1	0.1	0.9	0.3	0.1
Subtotal	-0.5	-0.6	-2.9	-1.4	3.5	4.5	2.5
Total Reesti- mates	-0.5	-0.6	-3.0	-1.5	3.3	4.2	1.8
CBO Reestimate of Administration's Budget	214.2	244.7	282.3	321.6	357.5	389.8	1,810.1

SOURCE: Budget of the United States Government, Fiscal Year 1984; and Congressional Budget Office.

a. Less than \$50 million.

#### POTENTIAL REDUCTIONS

Much of the current debate about the Administration's defense budget request is motivated by efforts to reduce the 1984 deficit. It is important to understand that funds for some defense programs are appropriated in one year, but are spent over a number of years. Thus, a decision to cancel some investment programs in the 1984 budget would produce only a small fraction of outlay savings in 1984 compared with the total amount of funds

requested. The following breakdown of the source of defense outlays in the 1984 budget helps to illustrate this problem.

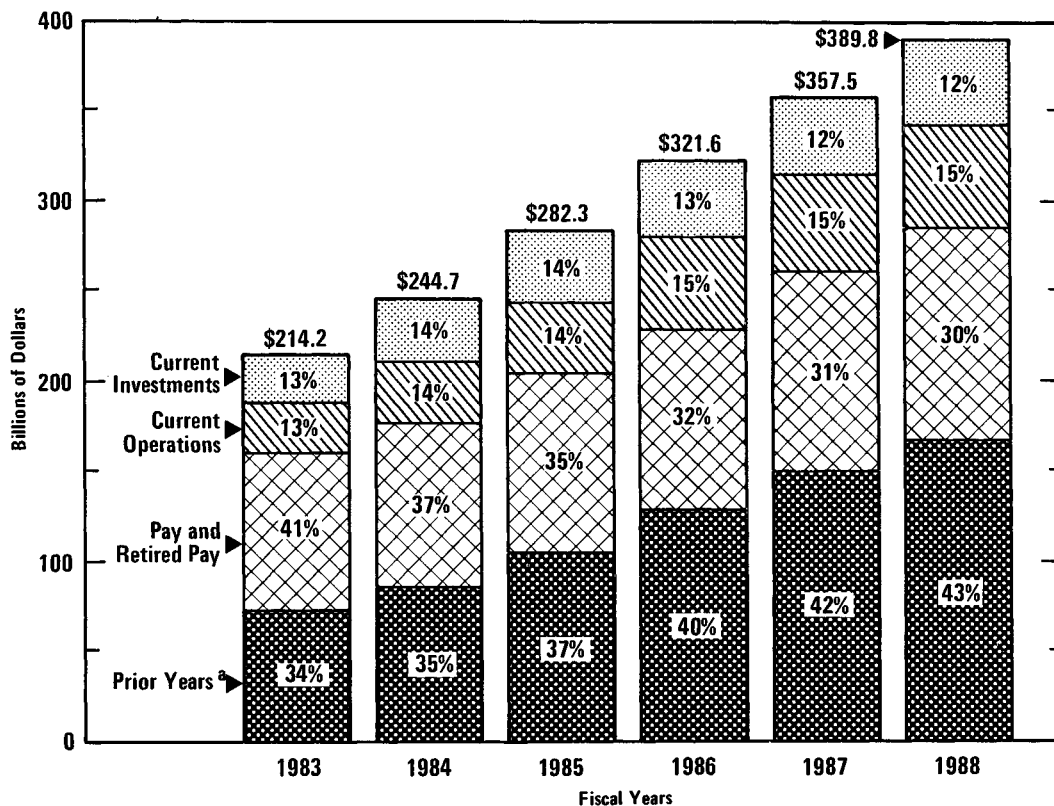
- o 35 percent (\$85 billion) of national defense outlays for 1984 result from budget authority provided in 1983 (including proposed supplements) and earlier years.
- o 37 percent (\$90 billion) of 1984 outlays relate to proposed 1984 budget authority to pay the active duty military and civilian defense personnel, plus pensions for retired personnel.
- o 14 percent (\$35 billion) of 1984 outlays are for operating and support costs, including training, logistics, and various personnel support activities that sustain current force readiness.
- o 14 percent (\$35 billion) of 1984 outlays stem from 1984 budget authority for modernization through new weapons procurement, research and development, and military construction.

Reducing the \$85 billion of 1984 outlays from prior-year budget authority would require cancellation, delay, or termination of programs already approved, often already under contract, and, in some cases, partially manufactured. Substantial financial penalties could result if the government canceled orders for partially built weapons or if the rate of production was substantially slowed. The preponderance of programs in this category represent fully funded orders for major weapons systems and construction that expend appropriations over several years. These characteristics mean that 1984 outlay savings would be only a small portion of the ultimate outlay reductions from cutting such programs.

Similar problems affect other categories. For example, if none of the \$94.1 billion budget authority requested for weapons systems procurement was appropriated in 1984, outlays in that year would decline by less than \$13 billion, because so much of the budget authority would be spent after 1984 when most production would occur. Thus, to achieve a high proportion of 1984 outlay savings from the Administration's 1984 request would require cuts other than those proposed for investments to improve future modernization. Immediate effects could be obtained by trimming purchases with relatively short order-to-delivery times, such as fuel, spare parts, and depot maintenance, all of which would affect current readiness, or by cutting personnel levels, which would reduce available forces.

Under the Administration's plan, the share of outlays from prior years' funding would rise steadily from 34 percent in 1983 to 43 percent in 1988 (see Figure IV-6). Thus, by currently approving programs with a larger

Figure IV-6.  
Composition of National Defense Outlays



SOURCE: Congressional Budget Office.

<sup>a</sup> Outlays from prior years' budget authority.

modernization component, the Congress risks an out-year dilemma characterized by intensified competition for resources between modernization and readiness needs. If future defense budgets fall short of the real growth targets assumed here, the portion of total outlays required to finance previous years' programs would increase. This shift would further limit the Congress's flexibility to control defense outlays. It is not necessarily undesirable that larger shares of total outlays result from prior years' funding; what is important is that future outlay ceilings conform to Congressional program priorities and balance between readiness, modernization, and force growth.

In order to illustrate some of the choices that the Congress may have if it wishes to reduce the 1984 defense budget, Table IV-19 shows some options assuming fixed growth rates and specific program adjustments. While these options illustrate the outlay impact of various approaches to reducing the defense budget, they do not address a more difficult question that the Congress faces: which specific programs and systems are to sustain the reduced funding?

One set of options provides a fixed real growth rate for budget authority and usually assumes reductions would be made proportionally across defense purchases. These options establish a broad statement of defense funding priority relative to other government functions without providing much information concerning relative program emphasis within the defense budget. Table IV-19 shows the savings relative to the President's budget achieved by limiting real budget authority growth to 5 and 3 percent.

A second set of options could include a more deliberate approach to program trade-offs and might involve substituting lower levels of real growth for selected defense budget accounts. The Administration's budget provides substantial real growth in most accounts and, in this sense, emphasizes both readiness and modernization. CBO's baseline contains a projection showing that real increases through 1988 in these accounts follow from Congressional action on the 1983 budget, but to a lesser extent than in the Administration's request. For example, CBO projects the need for 4 percent real growth by 1988 in military personnel and operations and maintenance (O&M) to keep unit readiness at the levels funded in 1983. <sup>4/</sup> The President's budget shows about 27 percent real growth in these accounts by 1988, with the corresponding increase in readiness. If one judges readiness to be adequately funded in 1983, an option could contain a modernization emphasis simply by keeping the President's program in all areas except military personnel and O&M; such an option would save \$107 billion in budget authority over the 1984-1988 period.

Similarly, CBO projects continued real growth (averaging about 4.5 percent annually for 1984-1988) in the procurement accounts consistent with appropriations for strategic and tactical force modernization in 1983 <sup>5/</sup>.

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4. See Congressional Budget Office, Baseline Budget Projections for Fiscal Years 1984-1988 (February 1983), p. 105 for a list of the force levels supported by the military personnel and O&M projection.
  5. See CBO, Baseline Budget Projections for Fiscal Years 1984-1988, p. 106 for a list of the investment programs funded by the CBO projections.

TABLE IV-19. COMPARISON OF THE ADMINISTRATION'S DEFENSE BUDGET WITH ALTERNATIVE BUDGET ASSUMPTIONS (By fiscal year, in billions of dollars)

Spending Level	1984	1985	1986	1987	1988	Cumulative Five-Year Savings
<b>Administration's Request</b>						
Budget Authority	281	330	365	397	433	
Outlays	245	285	323	354	386	
-----						
<b>Savings Under Alternative Assumptions</b>						
<b>5 Percent Real Growth</b>						
Budget Authority	14	31	33	28	23	129
Outlays	5	17	25	23	22	92
<b>3 Percent Real Growth</b>						
Budget Authority	19	42	52	55	60	228
Outlays	7	23	36	40	47	153
<b>Slower Readiness Growth</b>						
Budget Authority	8	16	23	29	32	107
Outlays	7	16	21	22	25	91
<b>Slower Modernization Growth</b>						
Budget Authority	2	16	22	27	28	94
Outlays	1	6	10	12	16	45

SOURCE: CBO and data supplied by the Department of Defense.

The Administration proposes substantially more funding for procurement--averaging 10 percent real growth per year for 1984-1988. This increased funding arises from changes in current programs and the out-year procurement of weapon systems now in the earliest stage of development. If one judges that continuation of current programs at current funding levels is adequate for the next five years, an option with the Administration's readiness initiatives and CBO's baseline procurement projection might provide the desired results in terms of savings and program balance. Readiness emphasis would save \$94 billion in budget authority for 1984-1988.

All options discussed above entail rough approximations and much less precision than is ultimately required in making specific funding decisions. More detail and supporting analysis can be found in Chapter II of the CBO report, Reducing the Deficit: Spending and Revenue Options (February 1983).



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## CHAPTER V. THE ADMINISTRATION'S DOMESTIC BUDGET

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With significant increases proposed in national defense outlays, the burden of spending restraint in the Administration's budget falls on domestic programs. As estimated by CBO, total nondefense spending in fiscal year 1984, on the unified budget, is projected to reach \$596 billion. This represents an increase of just 1.5 percent above the 1983 estimate, compared with the 14 percent nominal growth in outlays projected for national defense. <sup>1/</sup> Excluding net interest, 1984 nondefense outlays would total \$500 billion, the same as currently estimated for 1983. Because an increase of 4.7 percent would be required to keep pace with inflation, the Administration's 1984 budget implies a reduction in real nondefense spending (excluding net interest) of close to 5 percent below the 1983 level. This compares with 9-10 percent real growth in outlays for national defense for 1984 proposed by the Administration.

The 1984 budget continues the trends of the past few years. The rate of increase in domestic spending has been significantly slowed by decisions of the 97th Congress, through the reconciliation process, appropriations restraint, and other legislative actions. These actions have reduced nondefense outlays (excluding interest savings) by about \$60 billion a year below the level that would have resulted from maintaining 1981 spending policies. Reductions of over \$30 billion a year have been made in entitlement programs, including cuts in farm price supports, Medicare, Social Security, unemployment compensation, and the nutrition and income assistance programs. Discretionary spending has also been reduced, by about \$26 billion a year, below the previous baseline levels. Consequently, nondefense spending (excluding net interest), which grew at an average rate of 13.8 percent per year from 1970 to 1981, will increase at a rate of only 5.1 percent per year from 1981 through 1988, under the Administration's budget plan. In contrast, defense outlays grew at an annual rate of only 6.7 percent from 1970 to 1981, but will grow by over 15 percent per year from 1981 to 1984, and by over 12 percent annually from 1984 to 1988, under the

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1. The Administration estimates that off-budget spending will decline from \$17 billion in 1983 to \$14 billion in 1984. Thus, aggregate domestic spending, both on and off budget, would grow by only \$6 billion, or 1 percent, from 1983 to 1984. The Administration projects off-budget outlays to decline to \$9 billion by 1988.

President's plan. As a result, nondefense spending (excluding net interest), which accounted for over 67 percent of unified budget outlays in 1980, would drop to 59 percent in 1984, and to 54 percent in 1988.

The spending reductions proposed by the Administration span all the major categories of domestic spending--though some individual programs in each category are held even or increased in real terms. The largest cuts over the 1984-1988 period are in outlays for entitlements and other mandatory activities, which are reduced below the CBO baseline by \$9 billion in 1984 and by \$91 billion over the five-year period (see Table V-1). Reductions are also proposed for discretionary programs, totaling \$5 billion in outlays in 1984 and \$61 billion from 1984 through 1988. The budget also includes increases in offsetting receipts, which would reduce net spending by \$2 billion in 1984 and by \$25 billion over the five-year period. CBO estimates that savings in net interest costs resulting from the program changes and reduced deficits would total \$30 billion from 1984 to 1988. In total, CBO estimates the Administration's domestic spending proposals would reduce the baseline deficit by \$15 billion in 1984 and by \$206 billion from 1984 to 1988.

The results of these reductions on the major components of the budget are shown in Table V-2. Under the Administration's plan, the fastest rising category of domestic expenditures would be outlays for Medicare and Medicaid, which would increase at a rate of almost 12 percent per year, growing from 2.4 percent of GNP in 1983 to 2.8 percent in 1988. These programs would account for 42 percent of the \$136 billion increase in domestic spending from 1983 to 1988 under the President's budget proposals--despite the fact that the Administration proposals are estimated to reduce Medicare and Medicaid spending by \$9 billion in 1988 and by more than \$29 billion from 1984 through 1988. Social Security expenditures would rise at a much slower rate, about 6.4 percent per year--compared with projected increases under current law of 6.7 percent annually. Thus, the budget plan provides for a relatively small change in Social Security spending--about \$5 billion in 1988 and \$22 billion from 1984 through 1988, about a 2 percent reduction in outlays each year relative to the CBO baseline. Even with these savings, Social Security outlays would increase by \$60 billion from 1983 to 1988, accounting for 44 percent of the growth in domestic spending. The outlay increases for Social Security, Medicare, and Medicaid combined, from 1983 to 1988, total \$118 billion and represent 86 percent of the increase in domestic spending in that five-year period. Even with such large growth in dollar terms, outlays for these programs would remain unchanged as a percentage of GNP, at 7.5 percent.

The other major growth category is net interest, which would grow from \$87 billion in 1983 to \$116 billion in 1988, an increase of about 6

TABLE V-1. CBO ESTIMATE OF DOMESTIC SPENDING REDUCTIONS  
IN THE ADMINISTRATION'S 1984 BUDGET PLAN (By fiscal  
year, in billions of dollars)

	1984	1985	1986	1987	1988	Cumulative Five-Year Changes
CBO Baseline Outlays - Domestic Programs	611	650	690	742	793	
Proposed Changes						
Entitlements and Other Mandatory Spending						
Social Security	-4	-4	-4	-5	-5	-22
Medicare and Medicaid	-2	-4	-6	-8	-9	-29
Other entitlements and mandatory spending	-3	-7	-9	-10	-11	-40
Nondefense discretionary spending	-5	-7	-11	-17	-21	-61
Net interest	*	-1	-5	-10	-15	-30
Offsetting receipts	<u>-2</u>	<u>-4</u>	<u>-5</u>	<u>-6</u>	<u>-8</u>	<u>-25</u>
Total Changes	-15	-27	-39	-55	-69	-206
President's Budget as Estimated by CBO	596	623	651	687	723	

\* Less than \$500 million.

percent per year. CBO estimates that, under the larger baseline deficits and without the policy changes implicit in the Administration's budget, net interest costs would grow an average of 8.5 percent annually, to \$131 billion by 1988. Thus, the savings in other areas of the budget are projected to reduce net interest costs by \$15 billion in 1988, and by a total of \$30 billion from 1984 through 1988. As a result, net interest as a percentage of GNP would decline from 2.7 percent in 1983 to 2.4 percent in 1988.

TABLE V-2. THE ADMINISTRATION'S DOMESTIC BUDGET AS ESTIMATED BY CBO (By fiscal year)

	1983	1984	1985	1986	1987	1988
Outlays in Billions of Dollars						
Entitlements and Other Mandatory Spending						
Social Security benefits	164	174	185	197	210	224
Medicare and Medicaid	76	84	94	105	118	133
Other entitlements and mandatory spending	145	128	124	128	130	135
Nondefense Discretionary Spending	145	147	152	156	160	163
Net Interest	87	96	105	110	114	116
Offsetting Receipts	<u>-31</u>	<u>-33</u>	<u>-38</u>	<u>-44</u>	<u>-46</u>	<u>-48</u>
Total	587	596	623	651	687	723
Outlays as a Percent of GNP						
Entitlements and Other Mandatory Spending						
Social Security benefits	5.1	5.0	4.8	4.8	4.7	4.7
Medicare and Medicaid	2.4	2.4	2.5	2.5	2.7	2.8
Other entitlements and mandatory spending	4.5	3.7	3.2	3.1	2.9	2.8
Nondefense Discretionary Spending	4.5	4.2	4.0	3.8	3.6	3.4
Net Interest	2.7	2.7	2.7	2.7	2.6	2.4
Offsetting Receipts	<u>-1.0</u>	<u>-1.0</u>	<u>-1.0</u>	<u>-1.1</u>	<u>-1.0</u>	<u>-1.0</u>
Total	18.4	17.0	16.3	15.7	15.4	15.1